

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 EA-10 ISO-00 AGRE-00 CEA-01 CIAE-00
COME-00 DODE-00 FRB-03 H-01 INR-10 INT-05 L-03
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SUBJECT: COLOR TV EXPORTS TO THE U.S. -- EUROPEAN FIRMS

REF: STATE 016403 (NOTAL)

SUMMARY: TWO POTENTIAL EXPORTERS OF COLOR TELEVISION RECEIVERS
TO THE UNITED STATES--GRUNDIG JPD PHILLIPS--HAVE NO SUCH PLANS
IN THE NEJB FUTURE, THOUGH AFTER 1980 BOTH MAY ENTER THE
U.S. CTV MARKET FROM THEIR TAIWAN PROTECTION BASES. PHILLIPS
COLOR PICTURE TUBE PLANT, COMING ON STREAM OVER A THREE YEAR
PERIOD, WILL BOOST THE LOCAL CONTENT OF TAIWAN-MADE CTV SETS,
AND REDUCES DEPENDENCE ON JAPAN AS A SUPPLY SOURCE. END SUMMARY.

1. GRUNDIG TAIWAN, A WHOLLY-OWNED SUBSIDIARY OF WEST GERMAN
GRUNDIG, WILL START MANUFACTURING 15 INCH CTV CHASSIS FOR
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EUROPEAN-SYSTEM RECEIVERS IN MARCH, WITH PRODUCTION SCHEDULED
TO RISE TO 2,000 CHASSIS A MONTH BY DECEMBER 1978 ACCORDING
TO A SENIOR CHINESE OFFICER OF GRUNDIG. FOR NOW, ALL PRO-
DUCTION WILL MEET THE NEEDS OF GRUNDIG'S EUROPEAN MARKETING
NETWORK. AT PRESENT, GRUNDIG IS PROFITABLY MANUFACTURING
BLACK AND WHITE TV'S, AND CTV CHASSIS PRODUCTION IS EXPECTED
TO PROVE EVEN MORE PROFITABLE. IF CTV PROFIT MARGINS MEET

EXPECTATIONS, AND IF STEADY CTV CHASSIS SUPPLY TO EUROPE IS ASSURED, THEN GRUNDIG MAY BEGIN TO FOLLOW THROUGH ON GRUNDIG'S STAFF'S PROPOSAL TO USE ITS TAIWAN PRODUCTION BASE TO EXPORT TO THE U.S. MARKET.

2. PHILLIPS WIWAN, A WHOLLY-OWNED SUXIDIARY OF DUTCH PHILLIPS, HAS NO IMMEDIATE PLANS TO EXPAND ITS ACTIVITIES FROM CURRENT BLACK AND WHITE TV PRODUCTION INTO CTV PRODKETION, ACCORDING TO MANAGING DIRECTOR APPELDOORN. HE ADDED, THOUGH, THAT EVENTUAL PHILLIPS CTV PRODUCTION IN TAIWAN WAS "INEVITABLE." PHILLIPS' \$50 MILLION INVESTMENT IN A COLOR PICTURE TUBE PLANT IS PROCEEDING ON SCHEDULE. IN MARCH 1978, PHILLIP WILL BEGIN ASSEMBLY OF ITS FIRST COLOR PICTURE TUBE, MAINLY USING IMPORTED DUTCH COMPONENTS. OVER THE NEXT THREE YEARS BOTH PRODUCTION LEVELS AND THE DEGREE OF INTEGRATION WILL RISE TO THE SCHEDULED PRODUCTION CAPACITY OF ONE MILLION 13, 15, 17, AND 19 INCH COLOR PICTURE TUBES PER YEAR. (DUE TO DIFFERENCES IN MEASUREMENT METHODS, A PICTURE TUBE CONSIDERED 13 INCHES BY AMERICANS IS CONSIDERED TO BE 14 INCHES BY EUROPEANS. THIS HAS BEEN A SOURCE OF CONFUSION IN REPORTING THE OUTPUT OF THE PHILLIPS PLANT.) TAIWAN, THE PRIMARY MARDT, IS EXPECTED TO TAKE AT LEAST 400,000 TUBES PER YEAR, WITH SINGAPORE AND HONG KONG SECONDARY EXPORT MARKETS. THERE WILL BE LITTLE CAPTIVE PRODUCTION FOR PHILLIPS' EUROPEAN OR AMERICAN SUBSIDIARIES, THOUGH TUBES WILL BE SENT TO PHILLIPS SINGAPORE FACILITY WHICH IS NOW ASSEMBLING CTV'S FOR EXPORT TO THE LIMITED OFFICIAL USE

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EUROPEAN MARKET.

3. CTCMENT: PHILLIPS' INVESTMENT IN THE COLOR PICTURE TUBE PLANT, FIRST ANNOUNCED IN 1976, HAS CONTINUED TO RECEIVE AN ENTHUSIASTIC WELCOME HERE AS A GIANT STEP IN EFFORTS NOT ONLY TO PROMOTE FURTHER INTEGRATION AND DAELOPMENT OF TAIWAN'S CTV MANUFACTURING INDUSTRY, BUT ALSO TO REDUCE DEPENDENCE ON JAPAN AS A SUPPLY SOURCE. IN 1976, 80 PERCENT OF THE COLOR CATHODE RAY TUBES CONSUMED HERE CAME FROM JAPAN, AND ONLY 18 PERCENT CAME FOR THE U.S. THE MAJOR REASONS FOR JAPAN'S MARKET DOMINANCE INCLUDE (A) JOINT VENTURE OR TECHNICAL COOPERATION AGREEMENTS WITH ALL BUT ONE OF TAIWAN'S DOMESTIC CTV MANUFACTURERS; (B) LOWER PRICES THAT THOSE OFFERED BY U.S. FIRMS; (C) LOWER RISK OF TRANSPORTATION DAMAGE; AND (D) MORE AGRESIVE MARKETING EFFORTS HERE. AT ICESENT, CTV'S FOR EXPORT USUALLY INCORPORATE ONLY 35 PERCENT DOMESTICALLY-PROCURED COMPONENTS, WHILE ROC REGULATIONS STIPULATE THAT CTV'S FOR DOMESTIC SALE MUST INCORPORATE ONLY 50 PERCENT COMPONENTS. THIS STANDS IN SHARP CONTRAST TO BLACK AND WHITE TV PRODUCTION LUOR DOMESTIC CONSUMPTION, WHERE GROC REGULATIONS PRESENTLY STIPULATE 90 PERCENT DOMESTIC SOURCING, AND 100 PERCENT DOMESTIC SOURCING IS SCHEDULED TO BE REQUIRED BY THE END OF 1978.

PHILLIPS PRODUCTION OF CTV PICTURE TUBES WILL MAKE AN IMPORT-
ANT CONTRIBUTION TO RISING THE PERCENTAGE OF LOCAL CONTENT IN
BOTH DOMESTIC AND EXPORT CTV'S.
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